AR22

superior

1971 annual report

superior electronics industries ltd.

corporate information

BOARD OF DIRECTORS

Lawrence S. Bloomberg,
Director, Research Department —
Nesbitt Thomson and Company, Limited

***William Cohen,**
Vice-President — Marketing —
Superior Electronics Industries Ltd.

***Richard Golick**, President —
Superior Electronics Industries Ltd.

L. Lamont Gordon, President —
Gordon Securities Limited

***Lothar J. Lewinson,**
Vice-President — Manufacturing —
Superior Electronics Industries Ltd.

***Stanley K. Plotnick,**
Executive Vice-President —
Superior Electronics Industries Ltd.

***John F. Roch**, President —
Electro Physical Instruments Ltd.

Robert S. Vineberg, Attorney —
Phillips, Vineberg, Goodman,
Phillips & Rothman

OFFICERS

Richard Golick, President —
Superior Electronics Industries Ltd.

Stanley K. Plotnick,
Executive Vice-President —
Superior Electronics Industries Ltd.

William Cohen,
Vice-President — Marketing —
Superior Electronics Industries Ltd.

M. R. Levine,
Vice-President — Finance —
Superior Electronics Industries Ltd.

Lothar J. Lewinson,
Vice-President — Manufacturing —
Superior Electronics Industries Ltd.

Norman Friedman,
Secretary-Treasurer —
Superior Electronics Industries Ltd.

John F. Roch, President —
Electro Physical Instruments Ltd.

Jack C. Browman, President —
Superior International Electronics Ltd.

GENERAL COUNSEL

Phillips, Vineberg, Goodman,
Phillips & Rothman of Montreal

AUDITORS

Fuller Jenks Landau of Montreal

REGISTRAR AND TRANSFER AGENT

The Royal Trust Company,
630 Dorchester Boulevard West,
Montreal, Quebec

EXECUTIVE OFFICES

Superior Electronics Industries Ltd.
1330 South Service Road,
Trans-Canada Highway,
Dorval 740, Quebec

MAJOR FACILITIES

Picture Tube Production
2255 Dandurand Street
Montreal 331, Quebec

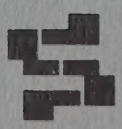
Research & Development Laboratories
2255 Dandurand Street
Montreal 331, Quebec

Sales Offices and Warehouses
1330 South Service Road,
Trans-Canada Highway,
Dorval 740, Quebec

265 Norseman
Etobicoke, Ontario

13 North Beekman Street
Plattsburgh, New York 12901

***Executive Committee Members**
William Cohen, Chairman



Kippen & Company Inc.
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MONTREAL STOCK EXCHANGE CANADIAN STOCK EXCHANGE
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THE INVESTMENT DEALERS' ASSOCIATION OF CANADA

CANADIAN IMPERIAL BANK OF COMMERCE BUILDING
1155 DORCHESTER BOULEVARD WEST
MONTREAL 102, CANADA

MONTREAL: 866-5761
TORONTO: 368-2932

AR22

INVESTMENT

RESEARCH

AND MARKET PERSPECTIVES

November 24, 1970

SUPERIOR ELECTRONICS

Price	$ 4.40	Fiscal 1970 Earnings/Share	$ 0.24
1970 Price Range	$ 7¼ – $ 3	Fiscal 1971 Est. Earnings	$ 0.32 – 0.34
Dividend	Nil	Price/1971 Est. E.P.S.	13.3x

CAPITALIZATION
as at March 31, 1970

Long Term Debt	$ 371,351
Deferred Taxes	120,856
Minority Interest in Subsidiaries	22,130
Retained Earnings	429,226
Common Shares (1,056,758 o/s)	1,502,130
	$ 2,445,693

CONCLUSION

Purchase of the stock at current levels for growth oriented accounts is warranted on the basis of the excellent earnings gain foreseen for this year and the evidence for further long term growth. At the same time the shares provide an opportunity for substantial capital gains should the company's research program in 'polyconductivity' prove to be commercially successful.

SUMMARY

Superior is a multi-faceted electronics firm involved in the production of replacement television picture tubes, the distribution of electronic parts and home entertainment products and the development, assembly and marketing of non-destructive testing and process-control equipment. The company has a good earnings base and the outlook is favourable. We estimate that earnings for the fiscal year ending March 31, 1971 will be 32¢ – 34¢ per share compared with 24¢ last year. This anticipated increase reflects the combination of a recently negotiated major contract for the tube division and an increase in its market share due to the withdrawal of a strong competitor, plus the benefit from a more intensive marketing effort in the field of imported consumer electronics.

At $ 4.30 and selling at roughly 13 times our estimated earnings range for the current fiscal year we consider the shares to be reasonably priced on the basis of the 10 – 15% annual growth foreseen for the company's basic business. On the other hand, Superior, with substantial Government funding, has undertaken a research program to develop and exploit commercially an electronic phenomenon known as 'polyconductivity' for which it has acquired worldwide patent rights. The $ 3 million program is well underway and results so far are encouraging. Although technological breakthroughs are difficult to predict, there is a strong possibility that if this program comes to fruition, Superior could become a major factor in the world electronics industry.

THE COMPANY

Superior has four operating divisions. The Superior group: replacement T.V. tubes and antennas etc. William Cohen Corporation: electronic and electrical parts. Superior International Electronics: consumer products. Electro Physical Instruments: materials testing and process control equipment.

SUPERIOR GROUP – The division is essentially a manufacturer of television picture tubes (black & white and colour) for the replacement market where its share is estimated to be over 50%. The tubes are sold under the Superior label and also to brand-name manufacturers in Canada and in the U.S. because the excessive proliferation of styles of tubes has made it economically impossible for the major manufacturers to produce limited runs.

Tubes are manufactured in a 50,000 sq. ft. plant located in Montreal, and leased warehouse facilities are maintained in Montreal, Edmonton, Vancouver, Halifax and Cleveland. It is estimated that present capacity could support a sales volume of $7 million, double the present rate.

A substantial increase in sales of black & white television picture tubes is anticipated for this year reflecting a large contract recently negotiated with a major U.S. manufacturer. Moreover the recent withdrawal from picture-tube manufacturing by Superior's major competitor, Canadian General Electric, should allow for an increase in market penetration and permit a firmer price structure. In the long run, sales of black & white tubes are expected to decrease, but this should be offset by:

1) an increase in sales of colour tubes due to total colour programming;
2) higher price of colour tubes (approximately 3 times);
3) shorter life span of colour tubes.

Overall, it is anticipated that the total tube market which Superior serves will grow at an 8% compounded growth rate in absolute dollars over the next few years.

Two years ago, the Superior group entered into the antenna distribution market, with the objective of participating in the growth of colour television. It is estimated that the company has now captured 40% of the antenna market and 50% of the rotor market for Canada. With the imminent introduction of Ultra High Frequency programming in Canada, the company should be able to exploit an increased potential market for U.H.F. converters.

WILLIAM COHEN CORP. which was acquired in 1969, has become the marketing arm of Superior. It is an established Canadian importer and coast-to-coast supplier of electronic parts, sound systems and home entertainment products. Product lines include solid state devices, test equipment, television parts and accessories, electronic chemicals, radios, hi-fi and stereo components, cassettes, speakers, baffles and all related equipment: in total the company distributes over 20,000 individual products.

In addition, increased commercial sound sales encouraged this division to set up a separate operation to provide a wide range of public address systems which will span the requirements of leisure, industry, law enforcement and education. The principal product line is "GELOSO" a well-known Italian make.

SUPERIOR INTERNATIONAL ELECTRONICS was formed to further penetrate the more-than $150 million market in Canada for consumer electronic products, specifically in the importation of Japanese products. To date a number of lines have been developed and the company has made considerable progress in the introduction of both auto and home entertainment products. In stereo equipment, an exclusive long term arrangement has recently been entered into with NIKKO, a major Japanese electronics manufacturer. All marketing is conducted through the William Cohen Corp.'s expanded sales force which covers fully the country's electrical and electronic wholesalers as well as large chain store accounts.

ELECTRO PHYSICAL INSTRUMENTS LTD. acquired in March 1970, designs and markets non-destructive testing and process control equipment. Exclusive distribution rights are held from a number of German manufacturers for diverse types of equipment including magnetic particle testers, ultrasonic testers, moisture gauges, nuclear gauges and many others. One of the company's most recent developments is a sulphur analyzer which monitors the sulphur content of crude oil on a continuous in-line basis rather than through manual batch samples. The first such instrument was recently delivered to an Esso refinery in South America. Other products which have been developed and sold include equipment which can detect flaws in railroad track, measure inconsistencies in textile waterproofing and steel pipe, and ultrasonically inspect automobile steerage linkages.

Profit margins at E.P.I. are higher than in Superior's other divisions and plans are to market E.P.I. products aggressively from new expanded quarters. Accounting in this division is conservative and sales and profits are not taken into the accounts until contract completion and delivery.

OPERATING REVIEW

Consolidated sales for the fiscal year ended March 31, 1970 increased only 1.1% to $5.94 million from a re-stated $5.87 million; however, after tax income recorded a 28% gain to $255,186 and earnings per share rose 11.5% to 24.1¢. This despite the integration of previously unrelated divisions and the added expenditures related to expansion.

The following table shows our rough estimates of Superior's volume by division and the overall profitability for fiscal 1971. Inasmuch as the company has not previously disclosed divisional data in this manner, our figures have been developed through consultations with the company, competitors and independent consultants.

ESTIMATED VOLUME OF SUPERIOR'S FULLY CONSOLIDATED DIVISIONS

	FISCAL 1970	FISCAL 1971 LOW	FISCAL 1971 HIGH
Superior Group			
Black & White tubes	$ 2100	$ 2700	3100
Colour Tubes	300	300	500
Antennas etc.	700	800	900
	$ 3100	$ 3800	4500
William Cohen Corp.			
Superior International Electronics Ltd.			
Mis. Electronic & Electrical Parts	2100	2200	2400
Consumer Products	200	500	800
	$ 2300	$ 2700	3200
Electro Physical Instruments Ltd.			
	500	700	800
Total Sales	$ 5900	$ 7200	8500
Profit Margin after full tax	4.3%	4.1%	5.0%
Net Profit	255	295	425
Earnings/Share*	24.1¢	27.3¢	39.3¢

* *For fiscal 1971 we have arbitrarily assumed that 1.08 million shares will be outstanding, reflecting the exercise of 23,000 warrants out of a total possible dilution of 80,000.*

First quarter earnings were $22,758 or 2.2¢ per share, relatively unchanged from last year. This quarter is traditionally one of low sales and small profits and results were penalized this year by a number of non-recurring expenses and problems which should be absent in succeeding quarters, including a widespread trucking strike in the United States. The company expects that the remainder of the year will show a strong gain in view of the benefits in the second half from the major tube contract and expansion plans which have been effected. We estimate that sales will fall in the area of $7.8 million and, on that basis, and assuming profit margins of roughly 4.3% to 4.7% for the full year, earnings per share should fall into the range of 32¢ – 34¢.

MANAGEMENT

The company, headed by Richard Golick and Stanley Plotnick has, through acquisition and recruitment, built an extremely strong and energetic management team. This is an innovative group where existing expertise tends to spread towards the development of new concepts in the electronics field. The primary objective that guides the company's management is the desire to find a "ground-floor niche", and the company has found profitable ventures that are ignored by the larger, more conventional Canadian electronic companies which are mainly U.S. dominated.

CAPITAL STOCK

As an alternative to a takeover bid by a U.S. company, 533,333 shares were offered to the public in August 1969 at $3 per share. Of this amount 62,320 shares were from the company's treasury, while 471,013 were from the holdings of shareholders. After the offering, the management and directors of Superior owned 33-1/3% of the 800,000 shares outstanding. Subsequently, an additional 129,688 shares were issued in connection with the two completed acquisitions, and a further 127,070 shares were sold for cash. Total potential dilution amounts to 105,000 shares composed of 80,000 warrants and 25,000 shares under employee option.

FINANCIAL

As at March 31, 1970 working capital was $1.47 million and the ratio of current assets to current liabilities was 1.88:1. Bank debt was $472,513 which represents only a portion of the bank credit lines at the company's disposal. During fiscal 1971 cash requirements of approximately $300,000 are expected to be financed entirely out of an estimated cash generation of roughly $550,000. A breakdown of planned expenditures is as follows:

Capital Expenditures	$ 150,000
Research & Development	50,000
Debt Retirement	100,000

The company's portion of research outlays will be capitalized and, as in the past, will be amortized over a 10-year period. Government grants will be written off as incurred.

RESEARCH & DEVELOPMENT – 'POLYCONDUCTIVITY'

Superior has acquired exclusive world-wide rights to research, develop and exploit patents applied for by a U.S. university which cover an electronic phenomenon called 'polyconductivity' in certain metal oxides at room temperature. This right, which extends for 20 years, entitles the company to past and future research which the university does in this field. Polyconductivity was developed by Dr. Daniel C. Mattis and Dr. Max Lipsicas of the Belfer Graduate School of Science, Yeshiva University, which enjoys a fine reputation in the scientific sphere. Both scientists have published regularly and are well known in their respective fields of physics and chemistry. Since taking his Ph.D at the University of Illinois under Dr. John Bardeen, inventor of the transistor, Dr. Mattis has conducted intensive research in the area of magnetic semi-conductors.

Polyconductive materials that switch from one state to another at room temperature may prove to be a major step forward in the development of solid state electronics in that they eliminate many of the components utilized in modern electronic circuitry. An optical phenomenon also related to polyconductors could find application in ultrasonic and laser technology.

The variety of known potential products, not to mention those which have not yet been conceived, which could employ the possible outcome of this development work, is very great. Several possible applications are FM de-modulators, oscillators, phono cartridges and microphones, non-mechanical camera shutters, electronic clothes washers, temperature control devices, laser modulators.

Research and development expenditures of $3 million to be spent over a five-year period will be financed largely by government grants totalling $1,625,000. In addition, approximately $1 million will be supplied through tax credits and revenues arising from participation under the Industrial Research Development Incentives Act.

With the active consultation of Dr. Mattis, the research program is now well underway, utilizing a staff of 10 men, five of whom hold Ph.D degrees. The company has set up one of the most sophisticated solid state research and development facilities in Canada and prototype devices are now being produced. While these are not yet commercial in nature, they are able to supply data as guidance to the theoretical approach. Although the techniques are crude, the company has developed the necessary photo-lithography and packaging techniques and has micro-miniaturized polyconducting devices. At present the company is satisfied with the research progress and hopes to have commercial prototype devices within a year and marketable devices within two years.

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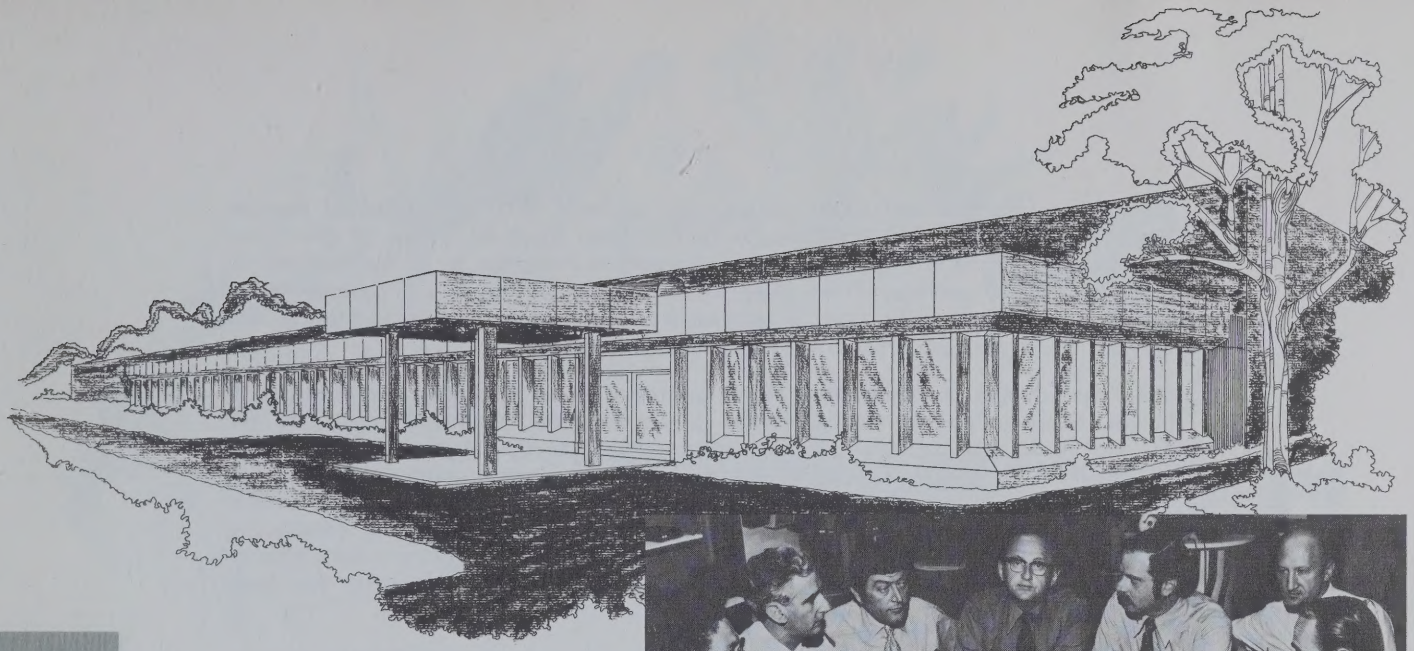
KIPPEN & COMPANY INC.



report to shareholders

Revenues for the fiscal year ended March 31, 1971 rose by 19 per cent to a record level of 7.05 million, while net income, in common with many companies in our industry, declined to $146,231 or 13.7¢ per share.

In addition to economic causes, earnings were to a large degree affected by specific decisions taken by the management to establish important foundations which would ensure the sustained growth and profitability of the company.

The decreased profitability in fiscal 1971 was attributable to two main factors :

In order to meet sharply higher demand for replacement television picture tubes, a significant expansion in this important area of our Distributor Parts Division was undertaken. However, dislocations created by this major undertaking, plus materially higher training costs for new personnel and greater production expense to meet the increasingly exacting technical requirements of our major customers, cut heavily into income in this Division.

The economic slowdown throughout the North American economy adversely affected our Special Applications Electronics Division as a number of customers postponed or reduced their new equipment purchases. In addition, two important, but costly, development projects were undertaken by this Division during the year. Although both were of considerable technical achievement and significantly enhanced our long-term capability, their immediate impact was to reduce profits in this area during fiscal 1971.

Throughout the year, the Distributor Parts Division continued to expand and to add new products to its distribution line. In addition, it began an arrangement with a major American company to supply its requirements for replacement black and white television picture tubes. To meet this increased production requirement, plus the growing market demand for color television replacement tubes in general, monochrome tube output was increased 65% during the year and color tube output was quadrupled. This important expansion will enable us to meet the growth anticipated in this segment of our business.

The Consumer Electronics Division experienced excellent growth and profitability during the year and continued to broaden its line of products. It now has a complete line of home audio and automotive entertainment products. In addition, it entered into an agreement for the exclusive distribution rights in Canada to one of the world's finest cassette tapes — the TDK line. It also concluded an agreement to exclusively market the complete line of NIKKO stereo Hi-Fi components in Canada.

Despite the less than anticipated performance for fiscal 1971 by our Special Applications Division, management continues to be optimistic about the future of this operation. Development in a number of promising systems continues to go forward and its marketing efforts and scope have been broadened. We believe it will continue to be the dominant factor in the field of non-destructive testing in Canada and that it will increase its role in the area of process control equipment.

Our Research and Development activities continued at an excellent pace. Charles T. Plough, formerly Manager of Technology Development for Fairchild Camera and Instrument Corp., was appointed Director of Research and Development. Both facilities and staff in this most important segment of your company were expanded. Our research into the commercial feasibilities of polyconductivity has resulted in several prototype devices which are currently being evaluated by a number of prospective customers. Small sample orders have already been received. We are also pleased to announce that our annual grant from the National Research Council has been more than doubled.

Of great significance to Superior's future growth are its plans to strengthen its management and realign and restructure its facilities organization.

We are currently in the process of consolidating five separate facilities in the Metropolitan Montreal area into two locations. One site will become our new Corporate Headquarters combining all administrative functions and personnel into one centralized location. In addition, it will serve as our main distribution outlet with over 85,000 square feet of warehouse space. The other will be devoted to the manufacture of television tubes and research and development activities. This streamlining will greatly contribute to overall corporate efficiency and profitability. The consolidation is scheduled for completion during July 1971.

We have also moved ahead in expanding our distributor service outlets throughout Canada. A new facility combining sales, service and warehouse functions was opened in Toronto during fiscal 1971. Several additional outlets are planned for the current year. These facilities will significantly increase our capabilities to service the entire Canadian distributor and consumer market coast-to-coast.

Management responsibilities have also been restructured for greater efficiency and more effective operational control. Functional areas have been realigned and more responsive lines of communication established. New marketing, distribution and administration procedures have been initiated. The net impact will be a simplified and clearly defined management structure with distinct lines of responsibility and authority, improved corporate communication and tightened day-to-day operational control.

In conjunction with this realignment, we are pleased to report that M. R. Levine has been appointed Vice President — Finance. Mr. Levine brings a broad financial and administrative background to Superior. In his new position, he will be particularly responsible for financial planning and control as well as the development and implementation of effective management information systems.

The appointments of Mr. Levine and Mr. Plough to senior corporate positions round out a management team that is energetic, experienced and committed to furthering the growth of your company.

We believe these steps will enable management to more effectively administer the increased size and scope of Superior. It will further enable us to capitalize fully upon those areas of corporate activity which hold significant potential for future expansion.

Respectfully submitted

Richard Golick

Richard Golick

consumer electronics

As a part of management's overall expansion plans, Superior entered the consumer electronics field through the acquisition of William Cohen Corporation and the addition of Jack C. Browman, a former Vice-President of one of Canada's leading electronic import houses. Management combined Cohen's experience and expertise in consumer stereo components and auto entertainment products with Browman's knowledge of world sourcing of consumer products and Superior's engineering capability. This combination formed the basis for Superior's thrust into the field of consumer electronic products, an area which management is confident it will significantly penetrate over the coming years.

Our present line includes Hi-Fi and stereo components, a complete line of car radios, 8-track and cassette units, ADC cartridges and speaker systems and Richard Allan loudspeakers and Superex stereophones. Our recently concluded agreement with NIKKO encompasses a complete line of stereo Hi-Fi components. Marketing of a full line of receivers, tuners and amplifiers began in December of 1970. Several additional models under the NIKKO label are expected during the current year.

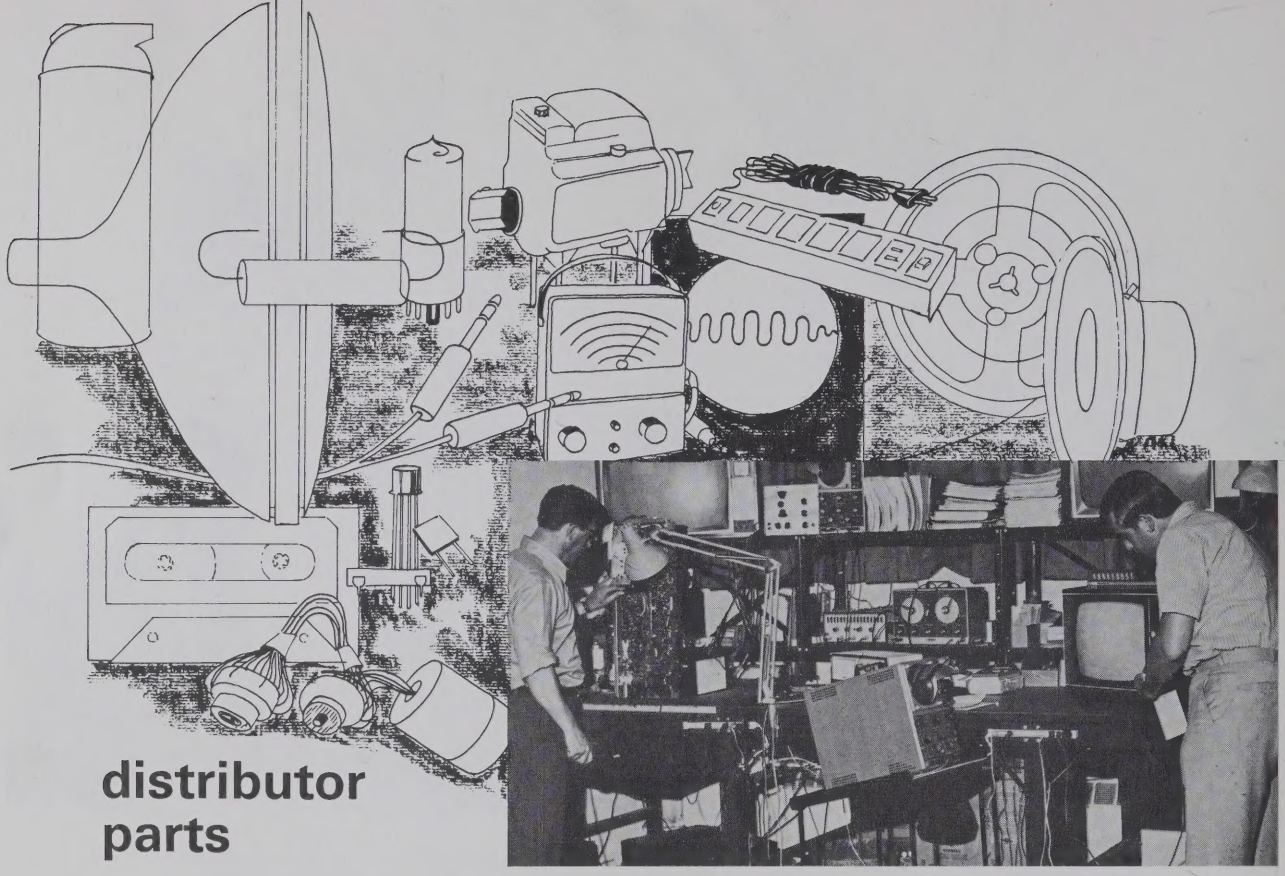
Superior has also gained exclusive Canadian rights to specific product designs of Broadmoor Industries Ltd. Distribution of a number of additional consumer electronic and home entertainment units under this arrangement is scheduled for this year. It will include the introduction of an AM/FM 8-track quadrasonic model.

In addition, Superior's own line continues to achieve gratifying results. It presently includes a Dolby cassette recorder and playback model, plus a variety of modular stereo systems.

Further successful penetration of this major market is a priority item for management as it adds an important new dimension to your company's continued diversification and expansion. The longer-term growth projection for the consumer electronics and home entertainment market is most favorable.

Projections indicate that the Canadian population will become increasingly more prosperous and, on the average, quite a bit younger. In the 1970's, Canadians will become more affluent than ever before and a greater portion of overall family income should be allocated to discretionary spending. In all probability as consumer income and confidence grow, greater amounts of discretionary income will be spent rather than saved.

It is anticipated that there will also be a parallel growth in the amount of leisure time available to all segments of the population. Greater affluence, rising discretionary income, and a younger, higher spending population all point to major growth for home entertainment products. Management confidently anticipates garnering a growing share of this expanding market.



distributor parts

This Division through Superior and William Cohen Corporation, continues to be the most significant part of your company's operations in terms of overall size.

It provides the broadest range of replacement components — more than 20,000 different units in over 50 product groupings — to the Canadian distributor market. This market consists of a coast-to-coast network of over 225 electronic wholesale distributors who supply components to the radio, television and electronic service industry in Canada.

The company, moreover, is a supplier of electrical devices to distributors and mass merchandizers and has recently entered the field of commercial sound with exclusive rights of distribution of the Geloso line.

In addition, Superior distributes replacement tubes to the American market. We supply approximately 400 distributors throughout the U.S. with the Superior line of tubes.

As electronic products become commonplace in home and industry, the replacement components Superior provides will continue to grow in demand. As management further implements its plans to make your company a one-stop supplier for the parts distributor through adding on supplementary lines, further growth in this Division will be forthcoming.

To this end, we added six new product lines in fiscal 1971 including receiving tubes, eduphones and listening stations for the educational market. We plan to introduce several major new lines during the current year.

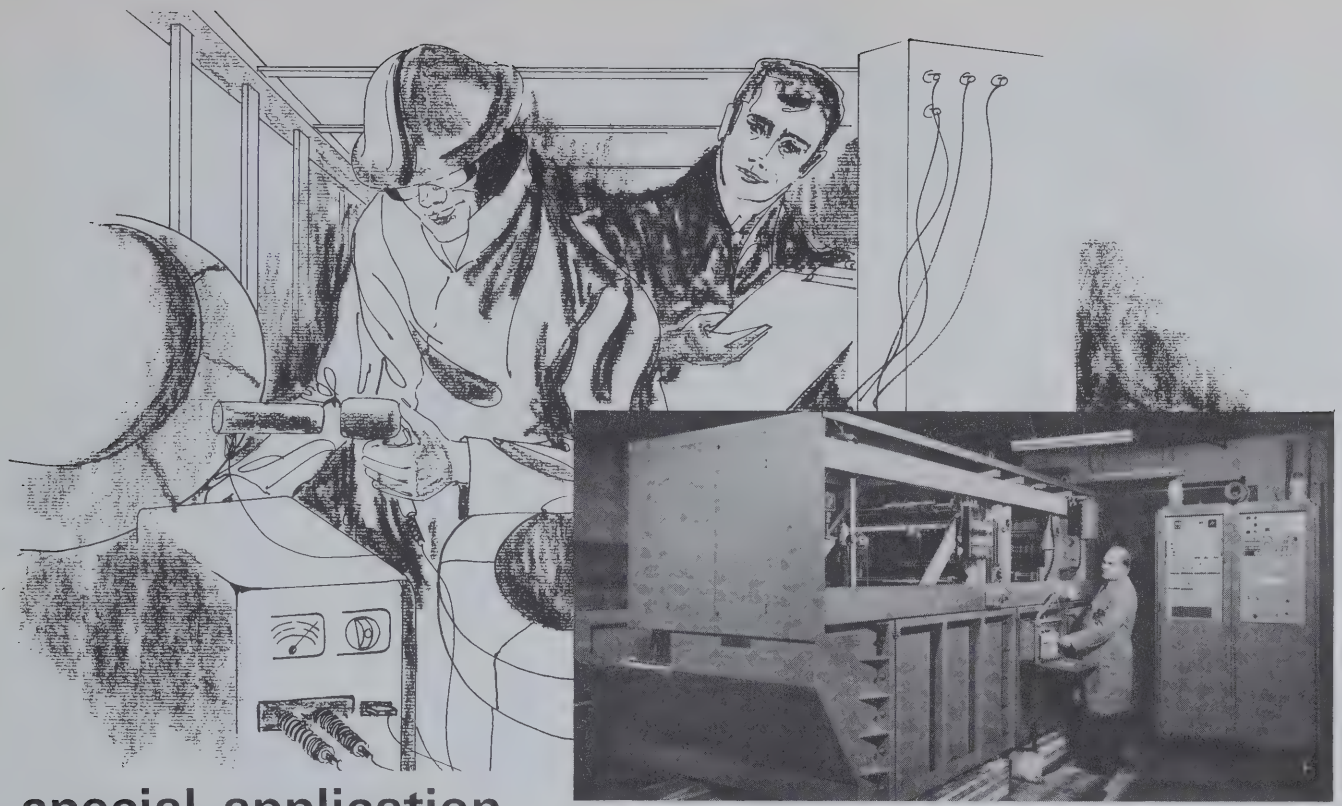
In addition, it is our intention to broaden our base of operations in this Division by becoming a supplier to the industrial distributor market. This is a logical diversification route for Superior. Industrial service products have a potential market of double that presently being served by our Distributor Parts Division. With the experience and expertise we currently possess as a service product supplier, management is confident of a significant penetration of this new and complementary area of activity.

Approximately one-half of this Division's volume is currently derived from replacement television picture tubes. Management looks forward to continued growth in this area, especially as demand for the higher priced color replacement tube continues to grow. At the present time, there are more than one million color sets in use in Canada. In excess of 300,000 sets are being sold annually and this will increase to an annual rate of approximately 500,000 sets by 1975. In the U.S., approximately six million color sets are sold annually. These units represent a built-in future demand for our replacement tubes.

In addition to supplying the replacement market directly, Superior provides replacement color and black and white tubes to many name manufacturers — both in the U.S. and Canada — who sell them under their own brand names.

During the year, we began to supply black and white replacement tubes to a major American company. In addition, our major Canadian competitor announced it would cease to make replacement tubes. This should tend to alleviate competitive pressure within the industry. Both actions reinforce management's favorable expectations for this aspect of our business. As a result, production capacity has been increased substantially — 300% in color tube output and 65% in black and white.

For the Division as a whole, the main thrust over the coming years will be in servicing distributor markets. It is management's objective to place emphasis in further diversification. As Superior continues to add new products to serve existing markets and to move into new distributor fields, replacement television tubes, although continuing to grow in absolute terms, will become of less relative importance to total operations.



special application electronics

Through our subsidiary, Electro Physical Instruments Ltd., this Division is engaged in the supply and design of specialized electronic systems to solve the needs of complex production, testing and control problems. As products become increasingly complex in nature, product safety and quality control assume increasing importance in the manufacturing process.

Quality control is typically handled through the process of non-destructive material testing, i.e., testing a product in such a way as to neither destroy it nor reduce its useful life. With increasing industrial and governmental emphasis on safety and performance, non-destructive testing is growing in importance and holds considerable promise for the future.

Utilizing its technical background and experience, Electro Physical incorporates a number of scientific testing devices into a complete, specialized system specifically designed for the particular needs of its individual customers. Examples of Electro Physical's accomplishments to date include the development of an ultrasonic rail tester which detects flaws in railway tracks for salvage. The rails are passed over the unit which scans them, separates and grades them and records its findings automatically. Two such units are presently in service with the Canadian National Railways.

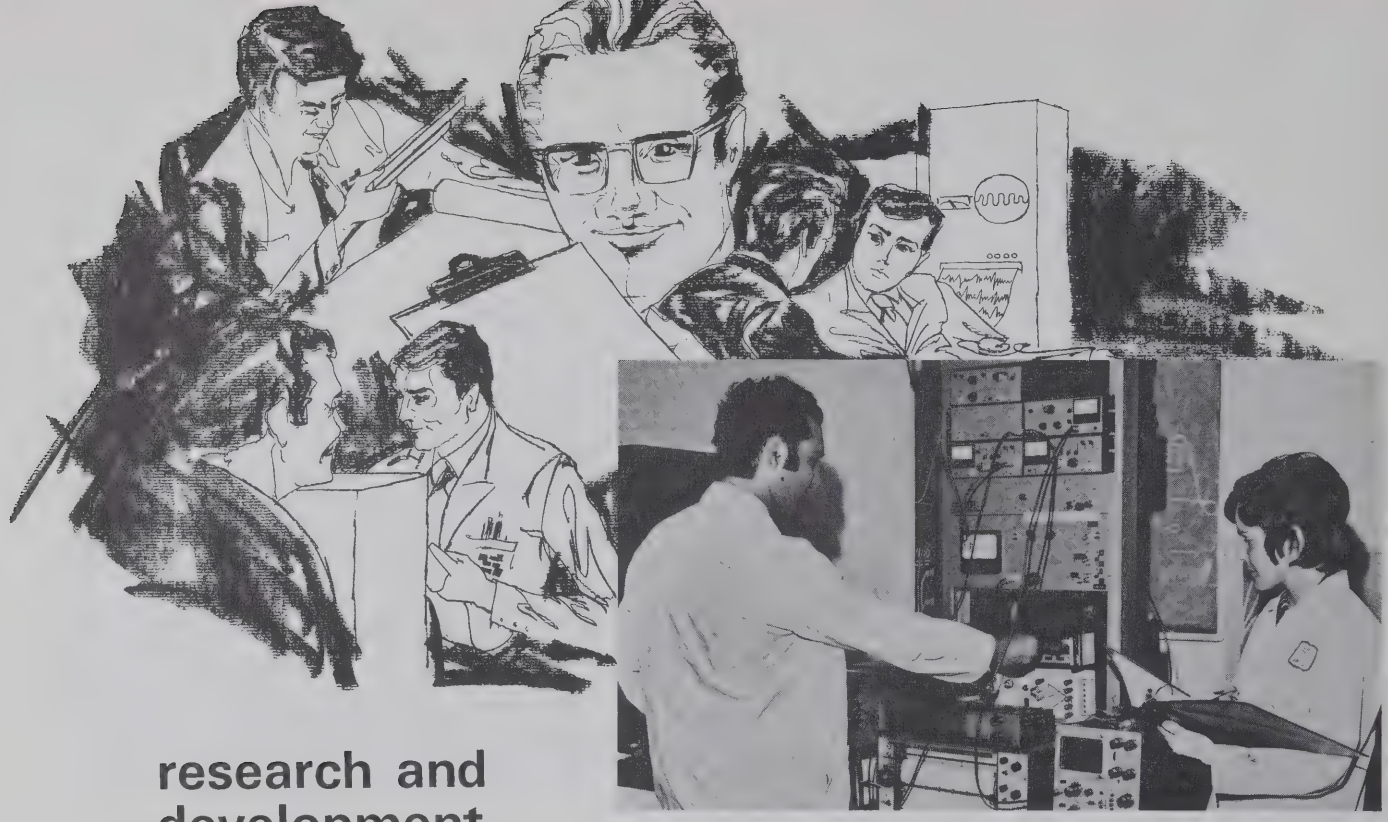
Two important new systems developed during the past year consisted of a unique ultrasonic immersion test package and a computer controlled ultrasonic tester for such automotive parts as the tie rods, steering linkage and axles. The latter is the first of its kind available. However, serious technical difficulties arose in both systems requiring completely new concepts for their solution. Although management is gratified by the technical accomplishments achieved in overcoming these problems, both systems were quite costly in terms of profits.

With the resolution of these difficulties, management is quite optimistic about the potential for both systems. Each represents a considerable state-of-the-art advance. The former offers significantly greater flexibility in the testing of parts than has been available before. The latter is expected to open a number of new applications for testing various cold forged steel parts in the automotive and other industries.

In addition, a third system introduced in Canada during the year was an ultrasonic testing unit to test welds in pipe. Ultrasonic testing is the only system available for testing welded pipe continuously. It is anticipated that with pipe production being increased to supply the proposed Trans-Alaska Line, a substantial market for these units will develop in Canada.

In addition to its dominant position as a supplier in the field of non-destructive testing in Canada, Electro Physical also supplies a variety of process control equipment. Virtually every refinery in Canada uses Electro Physical inspection equipment. It also has exclusive distribution rights in North America to a leading German process control line of Berthold Nuclear Gauges.

Management foresees significant expansion for Electro Physical through greater penetration of existing markets, entry into new markets both in Canada and outside the country and the addition of new product lines. In order to fully exploit the potential of its outstanding exclusive products — the Krautkramer line of ultrasonic equipment, the Tiede line of magnetic particle testing equipment and the Vega line of process control equipment, we will be expanding our territories and increasing our sales coverage. We anticipate this Division will have a growing and significant impact upon your company's operations.



research and development

In fiscal 1970, a five year three million dollar program was initiated to investigate the vast potential of polyconductive materials and to exploit the most promising properties in commercial products. This program has already produced extremely gratifying results.

A unique solid state materials research laboratory with the most modern instruments available has been established. The facility is staffed with highly competent and experienced scientists, engineers and technicians, to investigate materials which exhibit metal-non metal transitions, to develop prototype devices and to translate the theoritical concepts into industrial reality.

As of April, 1971, we have appointed Charles T. Plough as Director of Research, with the multiple responsibilities of overseeing the research program, developing commercially marketable prototypes, establishing device specifications and instituting pilot plant production. Mr. Plough brings to the company broad experience in semiconductor development and production. For the past seven years, he has been Manager of Technology Development at The Research and Development Laboratory of Fairchild Camera and Instrument Corporation at Palo Alto, California.

The efforts of the Research group have resulted in materials that have been fabricated into commercially desirable devices. These devices are presently being evaluated by a number of potential users. The comments already received from the field indicate that the polyconductor sensors have several advantages over existing components — namely solid state reliability and small size. The coupling devices give high voltage isolation and noise immunity as well.

At the present time, thermal sensing devices, solid state relays and automatically resettable circuit protection devices are among the products being test marketed. The few sample orders which have already been received, demonstrate that we have gone from a laboratory phenomena to commercial samples in ten months. Management is highly pleased with the technical progress achieved to date and trust that the coming year will be as productive as the last one.

The Research group continues to evaluate the optical properties of existing materials. Potentially useful devices such as optical memories, extremely accurate temperature sensors, and optical modulators are being investigated. In addition, a number of new materials are now being fabricated by a variety of processes. It is expected that one or more of these materials will have properties which are a significant improvement over existing materials.

Solid state electronics is a complex and highly technical field of activity. Yet it is the desire of your management that you are informed not only on the progress being made but also of the nature and potential of this area. Polyconductive devices are the newest development in the solid state field. Polyconductive materials exhibit abrupt changes in conductance and in optical transparency under certain conditions. The possibilities of utilizing these changes in commercial devices are the challenge which we are confronting. We plan to develop these materials for use by themselves and in integrated form with other solid state devices. We are confident of our position. We are planning to be in pilot plant production before the end of fiscal year 1971-72.

superior electronics industries ltd. and subsidiaries consolidated statement of earnings for the year ended march 31, 1971

	1971	1970
Net sales	$7,050,018	$5,941,275
Cost of goods sold and operating expenses exclusive of items shown below	6,612,743	5,244,251
	437,275	697,024
Depreciation	163,897	151,041
Interest on long-term debt	29,326	31,621
	193,223	182,662
Earnings before income taxes	244,052	514,362
Provision for income taxes (note 9)		
Current	104,360	214,972
Deferred	(6,539)	44,204
	97,821	259,176
Net earnings	$ 146,231	$ 255,186
Earnings per share (Note 12)	13.7¢	24.1¢

consolidated statement of retained earnings

	1971	1970
Balance – beginning of year	$ 429,226	$ 312,498
Adjustment to reflect acquisition of "The Superior Group" at actual combined book value of $801,823 as at March 31, 1969	–	(189,103)
Transactions related to restatement of retained earnings of acquired companies	–	50,868
Net earnings for the year	146,231	255,186
Dividends	–	(223)
Balance – end of year	$ 575,457	$ 429,226

(See accompanying notes to consolidated financial statements)

superior electronics industries ltd. and subsidiaries consolidated balance sheet as at march 31, 1971

ASSETS	1971	1970
CURRENT:		
Accounts receivable	$1,428,965	$1,001,619
Income taxes receivable	8,402	—
Accounts receivable — government agencies	59,044	58,238
Inventories (Note 2)	3,037,195	2,004,116
Loans receivable — shareholders	—	13,512
Prepaid expenses	92,952	101,241
	4,626,558	3,178,726
PROPERTY PLANT AND EQUIPMENT (Note 3)	585,933	617,678
OTHER:		
Investment in shares of another company (Note 4)	13,436	13,436
Advances to an affiliated company (Note 5)	16,189	16,189
Deferred research expenditures (Note 6)	542,273	295,945
Organization expenses and deferred charges	25,153	23,153
Patents and copyrights	22,055	15,708
	619,106	364,431
	$5,831,597	$4,160,835

Approved on behalf of the Board:

RICHARD GOLICK, Director

STANLEY PLOTNICK, Director

(See accompanying notes

LIABILITIES	1971	1970
CURRENT:		
Bank indebtedness (Note 7)	$1,527,127	$ 472,513
Accounts payable and sundry liabilities	1,491,098	916,411
Current portion of long-term debt	26,085	93,623
Income taxes payable	191,035	217,792
	3,235,345	1,700,339
LONG-TERM DEBT (Note 8)	378,218	371,351
DUE TO SHAREHOLDERS	–	10,803
DEFERRED INCOME TAXES (Note 9)	114,317	120,856
MINORITY INTEREST	22,130	22,130
SHAREHOLDERS' EQUITY		
Capital stock (Note 10)	1,502,130	1,502,130
Retained earnings	575,457	429,226
Contributed surplus (Note 11)	4,000	4,000
	2,081,587	1,935,356
	$5,831,597	$4,160,835

onsolidated financial statements)

superior electronics industries ltd. and subsidiaries consolidated statement of source and use of funds for the year ended march 31, 1971

	1971	1970
Funds provided:		
Net earnings for the year	$ 146,231	$ 255,186
Items not requiring an outlay of funds:		
Depreciation and amortization	163,897	151,041
(Decrease) increase in deferred income taxes	(6,539)	44,204
	303,589	450,431
Decrease in deposits	—	12,924
Proceeds of sale of common shares	—	431,003
Proceeds of sale of warrants	—	4,000
Adjustment to retained earnings of pooled subsidiaries	—	50,868
Decrease in current portion of long-term debt	67,538	10,000
Proceeds on sale of fixed assets	7,564	—
	378,691	959,226
Funds used:		
Additions to fixed assets and deferred research expenditures	817,024	260,334
Less: Government grants	(430,980)	—
Dividends	—	223
Redemption of preferred shares	—	16,322
Investment in and advances to other companies	—	35,054
Retirement of long-term debt	71,474	82,849
Other	8,347	36,035
	465,865	430,817
(Decrease) increase in working capital	(87,174)	528,409
Working capital — beginning of year	1,478,387	949,978
Working capital — end of year	$1,391,213	$1,478,387

(See accompanying notes to consolidated financial statements)

auditors' report

To the shareholders of Superior Electronics Industries Ltd.

We have examined the consolidated balance sheet of Superior Electronics Industries Ltd. and its subsidiaries as at March 31, 1971 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of Superior Electronics Industries Ltd. and subsidiaries included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at March 31, 1971 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Fuller Jenks Landau

Chartered Accountants

Montreal, Quebec
July 20, 1971.

superior electronics industries ltd. and subsidiaries
notes to consolidated financial statements

1. **Principles of consolidation:**
The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include the accounts of all subsidiary companies. All significant intercompany transactions have been eliminated.

In connection with the acquisitions in 1970 of William Cohen Corporation and its wholly owned subsidiary, Conbro Imports Ltd., and Electrophysical Instruments Ltd., the Company has contractual obligations to issue an additional but indeterminate number of common shares. The number of shares to be issued will depend upon earnings of the acquired businesses and the market value of the Company's common stock at the approximate date of issue.

The financial statements for the year ended March 31, 1970 have been reclassified where applicable to conform with the presentation used in the current year.

2. **Inventories:**
Inventories are valued at the lower of cost or net realizable value and are classified as follows:

	1971	1970
Raw materials	$ 724,005	$ 593,773
Work in process	11,195	20,356
Finished goods	2,301,995	1,389,987
	$3,037,195	$2,004,116

3. **Property, plant and equipment:**
Property, plant and equipment is stated at cost, and is classified as follows:

	1971	1970
Rolling stock	$ 35,763	$ 36,626
Machinery and equipment	914,843	865,334
Land and building	281,114	281,114
Leasehold improvements	99,541	101,870
	1,331,261	1,284,944
Accumulated depreciation	745,328	667,266
	$ 585,933	$ 617,678

Depreciation is provided on the diminishing balance method, except for leasehold improvements which are being amortized on the straight line method.

The fixed assets of four subsidiaries were appraised on July 16, 1969 by Warnock Hersey International Ltd. at a depreciated replacement cost of $1,123,800. The corresponding depreciated value carried on the books of accounts amounted to $504,289. The excess of the appraised value over that shown in the accounts of $619,511 has not been reflected.

4. **Investment in shares of another company:**
The investment consists of 50,000 common shares of Industrionics (Canada) Ltd. Subsequent to the year end, the Company has entered into negotiations to sell this investment to other shareholders of Industrionics (Canada) Ltd. at a value which will approximate its cost.

5. **Advances to an affiliated company:**
An amount of $16,189 has been advanced to Imperiale Electronics Incorporated for general working capital purposes. Superior Electronics Industries Ltd. is continuing its negotiations for the purpose of acquiring the outstanding capital stock of Imperiale Electronics Incorporated.

6. **Deferred research expenditures:**
Deferred research expenditures which were incurred in prior years are being amortized over a ten year period. All grants from the Federal Department of Industry, Trade and Commerce on these projects were deducted from the total costs incurred in the year of receipt of the grant.

In 1970, the Company purchased the worldwide patent rights to polyconductivity and undertook research to investigate the commercial feasibility of the process. All expenditures of a capital and direct nature are recoverable by grants authorized by the Defense Research Board and the National Research Council.

The indirect overhead costs of the project in the amount of $201,979 are reflected as additions to deferred research expenditures on the balance sheet, some of which may be recoverable under the Industrial Research and Development Incentives Act (I.R.D.I.A.). Amortization has not been taken on these deferred research expenditures in the current year.

The changes in these deferred research expenditures for the year are reflected as follows:

Balance, March 31, 1970		$ 295,945
Add: Additions during the year		715,787
		1,011,732
Less: Government grants received	$ 430,980	
Amortization of deferred research expenditures	38,479	469,459
Balance, March 31, 1971		$ 542,273

7. **Bank indebtedness:**
The bank indebtedness is secured. Several subsidiary companies have assigned their book debts and hypothecated their inventories and in conjunction with the Company have acted as guarantors for the indebtedness of other subsidiaries.

8. **Long-term debt:**

	1971	1970
The long term debt comprises the following:		
Superior Electronics Inc., 8-1/2% loan, due 1976 secured by:		
(i) 8-1/2% mortgage bonds of Superior Electronics Inc., and Mercury Electronics Inc. both constituting a fixed charge upon machinery and equipment and a floating charge upon their undertaking and other assets;		
(ii) Collateral hypothec upon the immoveable property of Janus Corp., and		
(iii) The joint and several guarantees of the Company and other companies in the "Superior Group", maturing in equal monthly instalments. (See Note 15)	$ 132,000	$ 146,000

Janus Corp., 7% mortgage loan, due 1973, secured by hypothec upon land and building, maturing in equal monthly instalments. (See Note 15)	$ 79,750	$ 99,000
Superior Electronics Inc., balance due to the Department of Industry, Trade and Commerce, interest 5-3/4%.	191,778	181,350
Regulations as set forth from the Department read as follows:		
"If the development is not a technological success or if the results of the development are not produced and sold, or the project is not used commercially, the Company shall not be required to repay the Department's contribution.		
However, in this event, the Department has the right to take title to the results of this project."		
Janus Corp., 7-1/2% balance of sale, due June 1, 1971, maturing in equal monthly instalments.	775	3,624
	404,303	429,974
Less: Current portion	26,085	58,623
	$ 378,218	$ 371,351

9. Deferred income taxes:

For income tax purposes, the Company has claimed maximum capital cost allowances which are in excess of the depreciation and amortization recorded in the accounts. Deferred research expenditures are written off for income tax purposes in the year incurred, but for statement purposes will be amortized on a straight line basis in future years.

The resulting deferred income taxes are provided for on the balance sheet to offset income taxes which may be payable in future years when the depreciation and amortization recorded in the accounts may be in excess of maximum capital cost allowances and deductible research expenditures.

10. Capital stock:

Authorized 2,000,000 shares without nominal or par value.
Common shares outstanding are as follows:

	Shares	Amount
Balance as of March 31, 1970	1,056,758	$1,502,130
Shares issued as additional consideration for company pooled in prior years:		
William Cohen Corporation	26,320	—
Balance as of March 31, 1971	1,083,078	$1,502,130

11. Warrants and stock options:

The Company has reserved 100,000 common shares for the exercise of outstanding warrants. Warrants to purchase 40,000 common shares are exercisable at any time up to and including July 31, 1979 at a price of $3.00 per share. These warrants were issued for an aggregate consideration of $4,000 which amount is reflected as contributed surplus of the Company. Warrants to purchase an additional 40,000 common shares are exercisable at any time between December 1, 1971 and November 30, 1974 at varying prices of $3.00 — $3.50 per share and have been granted with reference to the polyconductivity program. The remaining warrants to purchase an additional 20,000 common shares are exercisable at any time up to and including January 15, 1978 at $6.75 per share and accompany the new industrial Development Bank loan as described in Note 15.

On October 21, 1969, the Board of Directors adopted a stock option plan for employees under which 25,000 common shares have been reserved. Options under the plan are exercisable at 90% of the market value of the Company's stock at the date of grant. Options to acquire 23,200 common shares of stock at a price of $2.70 were granted to key employees including the options on 3,600 shares granted to a senior officer of the Company. These options are exercisable at the rate of 20% per annum commencing April 1, 1971.

12. Earnings per common share:

Earnings per common share in 1971 have been calculated using the weighted average number of shares outstanding during the year. In 1970, the earnings per common share were calculated using the number of shares outstanding at the end of the year. The earnings per share for 1970 were not restated because the change would have been anti-dilutive.

Common shares to be issued in 1971 in the amount of 26,320 with respect to earnings levels attained by certain acquired companies have been included in the weighted average number of shares outstanding. With respect to earnings per share assuming full dilution, the exercise of all 125,000 share purchase warrants and stock options (See Note 11) would not have resulted in any significant dilution of earnings per share by taking into consideration additional income calculated at a reasonable return on the funds that would have been realized on their exercise.

13. Lease commitments:

The Company and its subsidiaries occupy manufacturing, warehousing and office space under several long-term leases expiring at various times through 1991. The average annual lease commitments at balance sheet date were approximately $98,000. Subsequent to March 31, 1971 the Company and several of its subsidiaries occupied new premises. The approximate annual lease commitments taking into consideration the new premises are as follows:

1972 — 1976	$ 107,000
1977 — 1991	106,000

14. Statutory information:

a) Directors' remuneration —
The aggregate remuneration paid by the Company and its subsidiaries to directors and senior officers of the Company for the year ended March 31, 1971 amounted to $181,291.

b) Net sales by class of business —

Manufacturing	$3,116,915
Distributing	3,933,103
	$7,050,018

15. Subsequent events:

(i) The Company and several of its subsidiaries have jointly and severally entered into an agreement to borrow $600,000 from the Industrial Development Bank. A portion of these proceeds will be replacing existing long-term debt of $211,750 as indicated in Note 8. The new loan bears interest at 11.3% per annum and is repayable in 75 equal monthly instalments of $8,000 principal plus interest commencing July 23, 1971. The amount shown as current portion reflects a proportionate repayment of the new loan as it applies to the existing debt outstanding at balance sheet date.

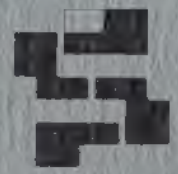
(ii) In July 1971, the Company issued 115,000 common shares to the public for a net cash consideration of $396,750. These funds will be used for general corporate purposes.

(iii) In July 1971, the Company announced plans for a public offering in a new corporation to handle the research and development into polyconductive materials. The new Company will be owned 72% by Superior Electronics Industries Ltd. and the remaining 28% will be publically offered in Canada. The operations pertaining to the research in polyconductivity will be carried on by the new company.

erratum

5 year summary of operations
should read...

	1968
ROFIT BEFORE INCOME TAXES	$198,763
ROFIT AFTER INCOME TAXES	164,135



superior electronics industries ltd.
5 year summary of operations

	12 MONTHS ENDED MARCH 31st			12 MONTHS ENDED SEPTEMBER 30th	
	1971	1970[2]	1969[1]	1968	1967
SALES	$7,050,018	$5,941,275	$3,193,997	$2,935,133	$2,751,134
PROFIT BEFORE INCOME TAXES	244,052	514,362	223,903	164,135	122,144
PROFIT AFTER INCOME TAXES	146,231	255,186	151,442	182,551	72,724
SHAREHOLDERS' EQUITY	2,081,587	1,935,356	798,365	743,812	549,019
TOTAL ASSETS	5,831,597	4,160,835	2,380,624	2,348,247	2,191,190
WORKING CAPITAL	1,391,213	1,478,387	582,254	570,506	250,850
EARNINGS PER SHARE [3]	13.7¢	24.1¢	20.5¢	22.2 ¢	9.8 ¢

NOTE: 1

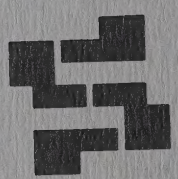
Effective March 31st 1969 the Company changed its fiscal year end from September 30th to March 31st. The figures for 1969 have been restated to reflect a twelve month basis to conform with the Company's fiscal year end of March 31st.

NOTE: 2

The financial information for 1970 reflect the results, on a pooling of interest basis, of William Cohen Corporation and Electro Physical Instruments Ltd. subsidiaries acquired by the Company in 1970, restated to conform with the company's fiscal year.

NOTE: 3

The earnings per share for 1971 have been calculated on the weighted average number of shares outstanding during the year. Earnings per share for previous years have been calculated using the number of shares outstanding at the end of each year.



superior electronics industries ltd.

MONTREAL, QUEBEC, CANADA